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C O N F I D E N T I A L BRATISLAVA 000602

SIPDIS

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SUBJECT: FINANCE MINISTER IVAN MIKLOS: POWER BEHIND THE SCENE

Classified By: CDA SCOTT THAYER for reason 1.4 (b) and (d)

1. (C) Summary. The political team of Minister of Finance Ivan Miklos and Prime Minister Mikulas Dzurinda has succeeded in transforming Slovakia's political and economic fortunes in a short amount of time. Miklos has won acclaim for his flat tax policy, and he has also managed several years of reforms that have turned Slovakia into an economic success story. His influence stretches well beyond his own ministry and someday he could be a legitimate challenger for the position of Prime Minister. Miklos has had to withstand accusations of corruption, and this issue could have a profound effect on his political future. Regardless, Miklos is well-regarded internationally and his future appears bright. End summary.

TEAMWORK

2. (C) Much of the credit for Slovakia's rapid progression since 1998 from political outcast to EU member and economic success story belongs to the policies of Minister of Finance (former Deputy Prime Minister for Economy) Ivan Miklos. Miklos, also a Deputy Prime Minister, has teamed successfully with Prime Minister Mikulas Dzurinda to transform Slovakia at a rapid pace. According to Jan Oravec, President of the Slovak Entrepreneurs Association and Ivan Svejna, Chairman of the Board of the Hayek Foundation, Miklos and Dzurinda work very closely together and appear to have a close personal bond that goes beyond politics. In fact, they need each other in order to be successful in their chosen roles. While Dzurinda is the public face of the Slovak Democratic and Christian Union Party (SDKU), Miklos maintains a lower profile and concentrates on the economic reform policies that helped the party win reelection in 2002 and which they hope will do so again in 2006. Miklos' achievements include instituting a 19 percent flat tax rate, transforming Slovakia's poor macroeconomic condition into one of strength, liberalizing privatization, and encouraging foreign investment. In 2004, Euromoney Magazine named Miklos the Finance Minister of the Year.

THE FUTURE

3. (C) Because of this success, Miklos would appear to be a likely successor to Dzurinda. Oravec and Svejna said there was a "99 percent chance" that would happen eventually, but not in the near future. We are somewhat more conservative -- Miklos enjoys being the Minister of Finance and he probably wants to direct further reforms in the future. More importantly, Dzurinda is not ready to step aside. Oravec said the Prime Minister enjoys the game of politics and would definitely seek a third term. (Note: SDKU party whip Milan Hort, a close Dzurinda collaborator, confirmed this when he told poloffs, "He's young, he's in great shape, and he's ready to run," both in marathons and in election campaigns.) Since Dzurinda is relatively young (50), he might even seek another term in 2010 regardless of the outcome in the 2006 elections. Svejna speculated that at some point Dzurinda might even seek to control the SDKU from outside of elected office, and this would be impossible with Miklos, given his considerable intellectual skills. Some believe that Miklos is not a political animal and would be suited to a career in an international institution such as the World Bank; certainly he gives the impression of being more of a technocrat than a politico. Miklos' time to lead the SDKU could eventually come, but in the near future the more likely move would be for Dzurinda to pick Minister of Defense Juraj Liska -- often characterized as a "yes man" to the Prime Minister -- as his heir apparent.

INFLUENCE

4. (C) Miklos will likely transform his role in the GOS in the near term and maintain a considerable amount of influence. The Ministry of Finance's (MOF) traditional role could diminish because of fiscal decentralization, the conversion to ESA 95 accounting principles when creating budgets, and the successful completion of tax reform. However, Miklos will exert additional influence over other ministries by controlling their budgets through the MOF. He recently blocked a landmark investment incentive deal with Korean tire maker Hankook (although this may also have been

an opportunity to give Economy Minister Rusko a political trip to the woodshed). He will also look for additional reforms to pursue, such as education, the completion of health care reforms, as well as leading the GOS's efforts with the Lisbon Agenda, especially to increase information technologies and competitiveness. Oravec and Svejna stated that Miklos had influence over the Slovak Central Bank (NBS) through his friend the Governor of the NBS, Ivan Sramko, whom he championed for the position. Miklos has disciples throughout the government and private sector; as a result,

although he is usually careful to cede publicly to Rusko, smart investors make sure he is well-briefed on their plans before moving ahead.

THE DARK(ER) SIDE -----

15. (C) Accusations of corruption have dogged Miklos for years, although they have subsided since the 2002 election campaign when opposition leader Robert Fico publicly claimed the Embassy had told him of Miklos' corrupt activities. Miklos sued Fico and won. (Note: Fico persisted in his public statements despite being told the Embassy could not and would not support him. Miklos wrote then-Ambassador Weiser at the time to solicit his testimony for the trial. When told the USG would not waive immunity, Miklos wrote again to say that it would be impossible for him to meet Amb. Weiser "under the circumstances" and never did again.)

16. (C) Miklos does have his legitimate critics:

--Within the business community, Miklos' decision to review the MOF's SKK 1.35 billion (USD 42.2 million) fine for abusing its monopolistic position against Slovnaft, the Slovak refinery, is viewed negatively. Shortly after the MOF announced the penalty against Slovnaft, the refiner appointed Miklos' friend and outgoing Governor of the NBS, Marian Jusko, to its Board of Directors. At the time, there was speculation that Slovnaft was hoping to exploit the two men's personal relationship to have the penalties reduced. However, in the first review the penalties were only slightly reduced and Slovnaft will likely appeal again.

--An advisor to Chairman of Parliament Pavol Hrusovsky (KDH) told poloffs the SDKU was "persuading" independent MP's to vote for its reform legislation by forgiving tax debts of their family members, claiming "after a visit to the Finance Ministry, their vote would be assured." (Comment: The advisor did not like the method, but was not too critical since KDH also supported the reform legislation. End comment.)

PERSONAL -----

17. (C) Ivan Miklos is young, active (tennis and swimming), handsome, well-dressed, and a good public speaker. SDKU secretary Kamil Homola told poloffs that, "After Dzurinda,

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he's the best we have on the campaign trail." He speaks excellent English. He and Dzurinda are obviously close--at public social events they and their wives often sit together and talk avidly.

THAYER

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